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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS ONE THROUGH FIVE)	Docket No. RM2013-6

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 2

The United States Postal Service hereby provides its responses to Questions 1 and 2 of Chairman's Information Request No. 2. The request was issued on September 17, 2013, with responses due today. Each question is stated verbatim and followed by the response.

Respectfully submitted,

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Question 1 (Proposal Four)

Refer to Proposal Four, and the Excel file Attachment 2.xls, worksheet tabs Proposal Imputed A Pages (MD) and Proposal Imputed A Pages (C), which show total volume variable costs for Market Dominant Products and Competitive Products, respectively.

Under Proposal Four, total volume variable costs for International Mail (Market Dominant and Competitive Products) shown in the Excel file Attachment 2.xls are less than the total volume variable costs for Market Dominant and Competitive Products reported in the imputed version of the FY 2012 ICRA, *i.e.*, the Excel file Reports.xls (revised 2-8-13), worksheet tab A Pages Summary. The difference is identical to the imputed Canada Air Diverted to Highway volume variable costs for Non-ISAL and ISAL shown in the Excel file Attachment 1.xls, worksheet tab Adjusted Intl Transportation, and the table entitled Total Imputed International Truck Transportation Cost in Outbound Calcs ($000) for Non-ISAL and ISAL, cells P13 and Q13. Please explain why imputed Canada Air Diverted to Highway volume variable costs are eliminated from the imputed version of the ICRA under Proposal Four compared to the imputed version of the FY 2012 ICRA.

RESPONSE:

In the Imputed version of the FY 2012 ICRA, only the Air Transportation costs were made to agree in the aggregate with the CS14 Purchased International Transportation account totals. This calculation can be seen in the <Adjusted Intl Transportation> tab of the Excel file Attachment 1.xls. Cells U9 and V9 in that tab show that the benchmarked Air Transportation cost totals for Non-ISAL and ISAL are in perfect agreement with the CS14 benchmarks targets. The imputed International Truck Transportation costs are carried below, and are not involved in the benchmark process.

The benchmark process described above for the Imputed Air Transportation costs is an historical artifact originating from the time when there were Outbound Surface Transportation Products and corresponding Purchased Transportation accounts. Part of the rationale of the current Proposal is the recognition that the benchmarking can be enhanced by bringing the Imputed Air and Truck Transportation costs into alignment with the total CS14 Purchased International Transportation accounts that include both Air and Surface Transportation. This process can be seen on the <Proposed Adjusted Intl Trans> tab of Excel file Attachment 1.xls. Now the zero values in cells U9 and V9 in that tab show that the combined Imputed Air and Truck Transportation costs for Non-ISAL and ISAL after adjustment are in perfect agreement with the CS14 benchmark targets.

The CS14 Purchased Air Transportation benchmark targets are identical in the Imputed FY 2012 ICRA and in the Imputed version under Proposal Four. The difference is that the Imputed Canada Air Diverted to Highway volume variable costs for Non-ISAL and ISAL are included in the International Transportation benchmarking to those benchmarks under Proposal Four. In the Imputed FY 2012 ICRA, only the Air Transportation costs were benchmarked to the CS14 benchmarks, and the Imputed Truck Transportation costs were carried as additive quantities outside the benchmarking process. As a result, the adjusted International Transportation Costs reported in the Imputed version under Proposal Four are lower than those reported in the Imputed FY 2012 ICRA by exactly the Imputed Canada Air Diverted to Highway volume variable costs for Non-ISAL and ISAL.

Question 2 (Proposal Four)

Refer to Proposal Four, and the Excel file Attachment 2.xls, worksheet tabs Proposal Booked A Pages (MD) and Proposal Booked A Pages (C), which show total volume variable costs for Market Dominant Products and Competitive Products, respectively.

a. Under Proposal Four, the Excel file Attachment 2.xls shows that total volume variable costs for Market Dominant Products decrease and total volume variable costs for Competitive Products increase compared to the booked version of the FY 2012 ICRA, *i.e.*, the Excel file Reports (Booked).xls (revised 2-8-13), worksheet tabs A Pages (MD) and A Pages (C). The increase in total volume variable costs for Competitive Products is nearly the same as, although slightly less than, the decrease in total volume variable costs for Market Dominant Products. Please explain why there is a shift in total volume variable costs from Market Dominant Products to Competitive Products in the booked version of the ICRA under Proposal Four compared to the booked version of the FY 2012 ICRA.

b. Under Proposal Four, total volume variable costs for International Mail (Market Dominant and Competitive Products) shown in the Excel file Attachment 2.xls is less than total volume variable costs for International Mail reported in the booked version of the FY 2012 ICRA, *i.e.*, the Excel file Reports (Booked).xls (revised 2-8-13), worksheet tab A Pages Summary. Please explain why there is a decrease in total volume variable costs for International Mail in the booked version of the ICRA under Proposal Four compared to the booked version of the FY 2012 ICRA.

RESPONSE:

The following table shows the differences between the Booked results under Proposal Four and the FY 2012 ICRA referenced in Questions 2(a) and 2(b) above:

Table 1. Revisions to Revised ACD, Table D-1 International Lines – Proposal Four Booked minus Booked FY 2012 ICRA:

Category	Attributable Cost ($000)	Contribution to Institutional Cost ($000)
Outbound Single Piece Mail Intl (Market Dominant)	(5,179)	5,179
Competitive International Mail	5,052	(5,052)
Total:	(126)	126

a. Under Proposal Four, the Proposed Booked version is identical to the Proposed Imputed version, which, in turn, is in very close agreement with the Imputed version of the FY 2012 ICRA, i.e., the Excel file Reports (Imputed).xls (revised 2-8-13), worksheet tabs <A Pages (MD)> and <A Pages (C)>. The answer to the question of why there is a shift in total volume variable costs from Market Dominant Products to Competitive Products in the booked version of the ICRA under Proposal Four compared to the booked version of the FY 2012 ICRA can be developed by examining why there is a shift in total volume variable costs from Competitive Products to Market Dominant Products in the Booked version of the FY 2012 ICRA compared to the Imputed version of the FY 2012 ICRA, particularly where International Transportation costs are involved.

As part of the Booking process in the FY 2012 ICRA, the Imputed Air Transportation costs that were avoided by imputing Air Diversion to Highway Transportation are first brought back in and added to Canada's volume variable Air Transportation costs, by Product. These are then added to the unadjusted imputed Air Transportation costs for the rest of the world by Product, and the totals are benchmarked to the CS14 Purchased International Transportation accounts using Non-ISAL and ISAL scale factors.

The feature in the process described above that is responsible for the shift under consideration is that, proportionately, more Market Dominant costs are brought back from the Air Diversion to Highway imputation than Competitive costs before the results are benchmarked to the CS14 account totals. The Imputed results presented in the <Adjusted Intl Transportation> tab of Attachment 1.xls and also found in USPS-FY12-NP2 (Revised 2-8-13), Excel file "Outbound Calcs.xls", <trnadj> tab can be shown to contain a grand total of approximately 17% Market Dominant Air Transportation volume-variable costs, and an approximate 83% Competitive portion. After restoring the Imputed Diversion of Air to Highway Transportation costs to Air, as shown in the <Intl Trans Without Diversion> tab of Attachment 1.xls, the shares of Air Transportation volume-variable costs are approximately 19% Market Dominant Products and 81% Competitive Products. Similar proportions hold after benchmarking those results to the CS14 accounts to produce the Booked version of the FY 2012 ICRA, as shown in the <Booked Intl Transportation> tab of Attachment 1.xls.

Thus, there is a shift of volume-variable International Transportation costs from Competitive to Market Dominant that occurs during the benchmarking process in the FY 2012 ICRA. Under Proposal Four, the Imputed Diversion of Air Transportation to Highway Transportation is retained as the smaller Truck Transportation costs during the benchmarking to CS14 International Transportation totals, and the shift does not occur between the Proposed Imputed version and Proposed Booked version. As a result, there is a lesser amount of Market Dominant International Transportation cost in the Booked version under Proposal Four relative to the Booked version of the FY 2012 ICRA and a greater amount of Competitive Product International Transportation cost.

b. The amount by which the total volume variable costs for International Mail in the booked version of the ICRA under Proposal Four is less than the corresponding amount in the Booked version of the FY 2012 ICRA is the result of ISAL and IMB International Transportation costs from the Imputed version being carried over to the Booked version without further processing. As stated in Proposal 4 at the top of page 12, "…for the FY

2012 ICRA, ISAL was inadvertently left as the Adjusted Imputed result in Reports (Booked)."

Recall that the Imputed version of the FY 2012 ICRA, as illustrated in the <Adjusted Intl Transportation> tab of Attachment 1.xls, are benchmarked to the CS14 Purchased International Transportation totals only for the Air Transportation portion of the imputed International Transportation costs. The imputed Air Diverted to Highway Transportation costs are then carried as an additive component. For ISAL and IMB, this additive Truck Transportation cost total can be seen in cell Q13 of the <Adjusted Intl Transportation> tab of Attachment 1.xls.

In creating the Booked version of the FY 2012 ICRA, the imputed Diversion of Air to Surface Transportation is supposed to be skipped, and the undiverted Air Transportation costs benchmarked to the CS14 Purchased International Transportation totals. Because this was not done for ISAL and IMB, their International Transportation costs in the Booked version of the ICRA, i.e. Excel file Reports (Booked).xls (revised 2-8-13), include an excess in the amount of the Imputed Truck Transportation cost referenced above.

Under Proposal Four, the Imputed Truck Transportation costs were retained and combined with the Air Transportation costs for benchmarking to the CS14 Purchased Transportation totals in both the Imputed and Booked versions. As a result, the International Transportation costs in the Booked version under Proposal Four are less than those in the Booked version of the FY 2012 by the amount of Imputed Truck Transportation costs for ISAL and IMB shown in cell Q13 of the <Adjusted Intl Transportation> tab of Attachment 1.xls. Because the only change made in the Booked version under Proposal Four was the manner of benchmarking International Transportation costs, this International Transportation cost difference is the cause for the decrease in total volume variable costs for International Mail in the booked version of the ICRA under Proposal Four compared to the booked version of the FY 2012 ICRA, as seen in the total difference shown in Table 1. The small difference between the total shown in Table 1 and the Imputed Truck costs shown in cell Q13 of the <Adjusted Intl Transportation> tab of Attachment 1.xls is due to rounding off of figures with slightly different precision because of the ways they were calculated.

Consideration of the differences referenced in Chairman's Information Request No. 2 and in the comments of the Public Representative in order to explain them has raised awareness of some of the dynamic effects involved in the benchmarking process, including as they involve interaction with the ICM Costing Module. This increased clarity of understanding will help ensure that the methodology presented in Proposal Four can be correctly implemented in the ICRA.